



Revised Budgetary Outlook *and* Principles for Economic Stimulus

Senate Budget Committee

Senator Kent Conrad, Chairman

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House Budget Committee

Representative Jim Nussle, Chairman

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Overview

This document presents a revised budgetary outlook and set of principles designed to help Congress and the Administration assess the short- and long-term economic and budgetary impact of proposals designed to help stimulate the faltering economy. These projections and principles have been agreed to by the Chairmen and ranking members of the House and Senate Budget Committees.

The revised budgetary outlook includes a set of baseline or current services budget estimates, which incorporate policies that have been signed into law or agreed to on a bipartisan basis since August. Estimates of other possible claims on the surplus, as well as an analysis of possible forecasting error are provided to illustrate the wide range of uncertainty in these estimates. These projections were prepared by House and Senate Bipartisan Budget Committee staff utilizing the most recent economic and budget information provided by the Congressional Budget Office (CBO).

Table 1, "Possible Budget Outlook – FY 2002-2011," contains staff estimates of an updated CBO baseline. These projections incorporate four main revisions: (1) an estimate of economic and technical changes, which is consistent with an economic downturn of relatively short duration; (2) a level of discretionary spending for FY 2002 equal to \$686 billion in budget authority, with this level held constant in all subsequent years in real, inflation-adjusted terms; (3) \$40 billion in emergency spending associated with the FY 2001 Emergency Anti-Terrorism supplemental, with half (\$20 billion) preserved after 2002 in real, inflation-adjusted terms; and, (4) a staff estimate of the Air Transportation System Stabilization Act, which will be replaced with CBO's estimate of this legislation when it is available. Under the "Possible Budget Outlook" scenario, the 2002 surplus declines from the CBO August estimate of \$176 billion to \$52 billion. Over ten years, the total surplus declines from \$3.4 trillion to \$2.6 trillion.

Table 2, "Other Possible Claims on the Surplus," provides a list of policies that could be enacted over the next few years – other than economic stimulus and additional emergency spending provided in response to the September 11 attack – which would reduce budget surpluses. These include: budget resolution policies and reserve funds; policies in House- and Senate-passed legislation; and, additional spending for natural disasters, tax extenders; and the Alternative Minimum Tax.

Table 3, "Economic and Technical Uncertainty in the Estimates," illustrates the uncertainty surrounding the budget projection used in Table 1. Based on the history of CBO's projection errors, the table shows the upper and lower bounds of a range that represents a 50 percent confidence interval. That is, there is a 50 percent chance that the outcomes will be better or worse than the outcomes included in the range.

Table 1: Possible Budget Outlook -- FY 2002-2011

(House and Senate Bipartisan Budget Committee Staff Estimates)

| (\$ billions) | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2002-11 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| Total Surplus (CBO August) | 176 | 172 | 201 | 244 | 289 | 340 | 389 | 450 | 507 | 628 | 3,397 |
| <u>Changes to date</u> | | | | | | | | | | | |
| Economic and technical changes | 80 | 56 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 144 |
| FY 2002 discretionary spending 1/ | 10 | 14 | 16 | 17 | 17 | 18 | 18 | 19 | 19 | 20 | 167 |
| Emergency Anti-Terrorism supplemental 2/ | 25 | 22 | 21 | 21 | 22 | 22 | 23 | 23 | 24 | 25 | 229 |
| Airline assistance 3/ | <u>6</u> | <u>4</u> | <u>6</u> | <u>2</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>17</u> |
| Subtotal, changes | 120 | 96 | 51 | 40 | 39 | 40 | 41 | 42 | 43 | 44 | 557 |
| Interest | <u>4</u> | <u>10</u> | <u>15</u> | <u>19</u> | <u>22</u> | <u>25</u> | <u>29</u> | <u>33</u> | <u>37</u> | <u>41</u> | <u>236</u> |
| Total changes 4/ | 124 | 106 | 66 | 59 | 61 | 65 | 70 | 75 | 80 | 86 | 793 |
| Revised Total Surplus (Staff estimate) | 52 | 65 | 135 | 186 | 228 | 275 | 318 | 375 | 427 | 543 | 2,604 |

1/ Estimates assume appropriations of \$686 billion in budget authority in 2002 with outlays estimated using CBO composite outlay rate for total discretionary spending. Outyear estimates assume a level of \$686 billion, adjusted for inflation after 2002.

2/ Estimates assume \$40 billion in emergency spending associated with the FY 2001 Emergency Supplemental Appropriations Act for Recovery From and Response To Terrorist Attacks on the United States (H.R. 2888). Of these amounts, \$20 billion is carried forward in all subsequent years, in real (inflation-adjusted) terms.

3/ Preliminary staff estimates, which will be revised when CBO issues their official cost estimate of the Air Transportation Safety and System Stabilization Act (H.R. 2926).

4/ These changes do not include "other possible claims on the surplus", listed on table 2.

Table 2: Other Possible Claims on the Surplus
(Excluding Economic Stimulus and Additional Emergency Spending Related to September 11)

| (\$ billions) | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2002-11 |
|---|------|------|------|------|------|------|------|------|------|------|---------|
| Budget Resolution Policies: | | | | | | | | | | | |
| One-year extension of tax provisions expiring in 2001 | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Veterans programs | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 7 |
| Other revenue policies | 3 | 2 | 2 | 2 | 3 | 1 | 1 | 1 | 1 | 1 | 18 |
| All other resolution policies | 3 | 5 | -0 | 4 | 2 | 5 | 5 | 5 | 5 | 5 | 39 |
| Budget Resolution Reserve Fund Policies: | | | | | | | | | | | |
| Prescription drugs | 0 | 0 | 10 | 21 | 28 | 39 | 44 | 47 | 52 | 58 | 300 |
| Farm bill 1/ | 7 | 8 | 8 | 8 | 7 | 7 | 6 | 6 | 7 | 7 | 74 |
| Expanded health coverage | 8 | 10 | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 28 |
| Home Health, student loans, Family Opportunity Act | 0 | 1 | 2 | 3 | 3 | 3 | 4 | 4 | 4 | 5 | 29 |
| House- and Senate-passed bills: | | | | | | | | | | | |
| Faith-based initiative (House-passed) | 0 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 13 |
| Railroad retirement (House-passed) | 16 | 0 | 0 | -0 | -0 | -0 | -0 | -0 | -0 | -0 | 15 |
| Energy (House-passed) | 2 | 3 | 4 | 5 | 5 | 4 | 3 | 3 | 2 | 2 | 34 |
| Patients Bill of Rights (Senate-passed) | -0 | 1 | -0 | 0 | 2 | 3 | 3 | 3 | 3 | 4 | 18 |
| Elementary and Secondary Education (Senate-passed) | 0 | 6 | 10 | 13 | 15 | 18 | 20 | 21 | 21 | 22 | 145 |
| Natural disasters 2/ | 2 | 4 | 5 | 6 | 6 | 6 | 6 | 6 | 7 | 7 | 55 |
| Permanent extension of expiring tax provisions 3/ | 1 | 2 | 4 | 9 | 13 | 17 | 20 | 22 | 25 | 29 | 142 |
| Elimination of 2001 Tax Bill sunsets 4/ | 0 | 1 | 1 | 1 | 1 | 2 | 1 | 2 | 3 | 100 | 113 |
| Alternative Minimum Tax 5/ | 0 | 0 | 0 | 2 | 12 | 22 | 30 | 39 | 48 | 54 | 208 |

1/ Amounts in FY 2002 are not included in the agriculture reserve fund. (The House Agriculture Committee approved a bill that cost \$2 billion in FY 2002.)

2/ Outlays resulting from estimate of historical average of \$5.6 billion per year of emergencies beginning in 2002, adjusted for inflation thereafter.

3/ Includes "Estimated Revenue Effects of a Permanent Extension of Tax Provisions Expiring in 2001 through 2010", in JCT document JCX-66-01, excluding H.R. 1836, increased AMT exemption, tuition and related expenses.

4/ Extension of expiring provisions in H.R. 1836, the "Economic Growth and Tax Relief Reconciliation Act of 2001", as estimated by JCT.

5/ Includes "AMT Relief" provision in JCT document #01-1 144 R, excluding the treatment of nonrefundable personal credits.

Source: House and Senate Bipartisan Budget Committee Staff.

Table 3: Economic and Technical Uncertainty in the Estimates
(House and Senate Bipartisan Budget Committee Staff Estimates)

| (\$ billions) | 2,002 | 2,003 | 2,004 | 2,005 | 2,006 | 2,007 | 2,008 | 2,009 | 2,010 | 2,011 | 2002-11 |
|---|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| Revised Total Surplus (Staff estimate) | 52 | 65 | 135 | 186 | 228 | 275 | 318 | 375 | 427 | 543 | 2,604 |
| <u>Alternative surplus estimates</u> | | | | | | | | | | | |
| Optimistic Alternative | 101 | 157 | 269 | 357 | 436 | 524 | 609 | 711 | 802 | 983 | 4,949 |
| Change from staff estimate of surplus | 49 | 92 | 134 | 171 | 208 | 249 | 291 | 336 | 375 | 440 | 2,345 |
| Pessimistic Alternative | 2 | -28 | 2 | 16 | 23 | 25 | 25 | 48 | 50 | 107 | 270 |
| Change from staff estimate of surplus | -50 | -93 | -133 | -170 | -205 | -250 | -293 | -327 | -377 | -436 | -2,334 |

Note:

The Congressional Budget Office (CBO) has constructed a set of probability estimates through 2006 around their baseline projections based on their forecast errors. The optimistic and pessimistic estimates shown above, use this probability distribution (with extrapolations after 2006) to show the estimates in the 75% and 25% percentile (respectively) surrounding the point estimates of the revised total surplus from table 1 (exclusive of stimulus and additional terrorism-response legislation).

Principles for Economic Stimulus

The Chairmen and Ranking Members of the House and Senate Budget Committees recognize the extraordinary circumstances resulting from the September 11, 2001 attacks on our country. These terrorist attacks have created a national emergency, instigated a war on terrorism, and exacerbated a slowdown in the economy. Clearly, the Congress and the President will provide the resources necessary to respond to these events. The principles articulated below are simply intended to ensure that those resources provided by the Congress and the President be an effective economic stimulus package that does not erode fiscal discipline in the future.

Overall principle. An economic stimulus package should be based on the recognition that long-term fiscal discipline is essential to sustained economic growth. Measures to stimulate the economy should be limited in time so that as the economy recovers, the budget regains a surplus that is at least equal to the surplus in Social Security. Any short-term economic stimulus should not result in higher long-term interest rates.

Objectives. An economic stimulus package should restore consumer and business confidence, increase employment and investment, and help those most vulnerable in an economic downturn, and do all of the above without converting a cyclical deficit into a structural deficit.

Timing. Congress should assemble an economic stimulus package deliberately but with dispatch, aiming for passage within 3-4 weeks, based on the best economic data available.

Rapid impact. A substantial portion of the fiscal impact on the economy should be felt within 6 months.

Sunset. All economic stimulus proposals should sunset within 1 year, to the extent practicable.

Targets. Economic stimulus should be broad-based rather than industry-specific. Policies should achieve the greatest possible stimulus effect per dollar spent and should be directed to individuals who are most likely to spend the additional after-tax income and businesses most likely to increase investment spending and employment.

Size. The economic stimulus package should equal approximately 1 percent of GDP (about \$100 billion) but should count the budgetary effects of policies implemented since August, which, at present, total roughly \$40 billion.

Offsets. To uphold the policy of repaying the greatest amount of national debt feasible between 2002-2011, outyear offsets should make up over time for the cost of near-term economic stimulus.